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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

DOCKETED

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JIM IRVIN
Commissioner - Chairman
TONY WEST
Commissioner
CARL J. KUNASEK
Commissioner

IN THE MATTER OF THE FILING BY
CITIZENS UTILITIES COMPANY
OF UNBUNDLED AND STANDARD
OFFER SERVICE TARIFFS
PURSUANT TO A.A.C. R14-2-1606

DOCKET NO. E-01032C-97-0774

DECISION NO. 61339ORDER

Open Meeting
January 6 and 7, 1999
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Citizens Utilities Company (Citizens, CUC or Company) is certified to provide electric service as a public service corporation in the State of Arizona.

2. On December 31, 1997, Citizens Utilities Company filed its unbundled and standard offer service tariffs pursuant to A.A.C. R14-2-1606. In this filing, the Company priced electric service elements such as transmission and distribution. The Company also filed standard offer tariffs which increase, decrease and change rates for various customer classes (residential, small general, etc.). CUC also submitted information and requested a system benefits charge.

3. Effective December 26, 1996, the Arizona Corporation Commission (Commission) adopted rules governing the parameters of retail electric competition. Pursuant to A.A.C. R14-2-1606(D), each incumbent utility must file Unbundled Service Tariffs to provide the following services to all eligible purchasers on a nondiscriminatory basis: Distribution service; Meter and meter reading service; Billing and collection service; Open access transmission service; Ancillary services; Information services; and Other ancillary services necessary for safe and reliable system operation. Pursuant to A.A.C. R14-2-1606(C), each incumbent utility may also file proposed tariffs to provide standard offer bundled service.

1 4. Decision No. 60575, dated January 14, 1998, suspended this filing until May 29,
2 1998. Decision No. 60910, dated May 22, 1998, suspended this filing until November 25, 1998.
3 In a letter dated November 13, 1998, the Company agreed to delay the implementation of its
4 Unbundled Services Tariffs and System Benefits Charge, which were filed on December 31,
5 1997 until December 10, 1998.

6 5. Staff's concern with the Company's unbundled tariffs as filed on December 31,
7 1997 was that they would result in step increases and decreases for certain standard offer
8 customers and customers who choose competitive suppliers. These increases and decreases were
9 primarily the result of higher fixed charges in the unbundled and standard offer tariffs than are in
10 the Company's current tariffs.

11 6. As a result of discussions with Staff, the Company and Staff developed a
12 Summary of Settlement Terms (Settlement Terms) dated November 30, 1998.

13 7. According to the Settlement Terms, for 1999, the Citizens' unbundled and
14 standard offer rates shall be designed so that they are essentially revenue neutral; that is, there
15 will be no re-allocation of revenue responsibility between rate classes nor adoption of the rate
16 design changes proposed in Citizens' original Unbundled Rates filing, with the following
17 exceptions:

- 18 a. the Dusk-to-Dawn Lighting Service rate design will be modified to
19 better reflect actual lighting energy usage by fixture type;
20 b. the demand ratchet for the Large Power Service Rates will be
21 lowered to 80 percent.

22 8. The Settlement Terms specify the basis for the unbundled and standard offer rates
23 shall be the cost of service presented in response to Staff data request BA-73.

24 9. According to the Settlement Terms, the costs of Citizens' Valencia facilities shall
25 be reflected in revenue requirements underlying the rates for distribution service. If the Valencia
26 facilities are no longer needed to support local transmission reliability, or other significant
27 operating changes occur, Citizens will meet with Staff to determine if and how its rates should be
28 revised to account for the changes that have occurred.

1 10. The Settlement Terms state that Citizens may file a revenue-neutral rate design
2 proposal in 1999 based on more current customer load and usage data which reflects the
3 following principles of cost allocation:

- 4 a. generation capacity costs will be allocated using the four
5 (4) Coincident Peak (CP) and average method;
- 6 b. most distribution capacity costs will be allocated using
7 class Non-Coincident Peaks (NCP);
- 8 c. load data will conform to the criteria described in the
9 attached Appendix A.

10 11. According to the Settlement Terms, Citizens' 1999 rate filing will also include the
11 following principles:

- 12 a. a redistribution of costs among rate classes to achieve a
13 movement of at least 50 percent of the way toward
14 equalized rates of return;
- 15 b. the use of a rate phase-in process for all customer classes
16 with annual rate changes over an appropriate multi-year
17 period, if necessary, to insure that no customer (including
18 zero-use) will experience a rate increase of more than 7
19 percent in any year;
- 20 c. the adoption of two-tier pricing for transmission and
21 distribution services for Residential and Small General
22 Service rates with a Customer Charge, Head Block and Tail
23 Block.
- 24 d. an Unbundled Interruptible Service Rate based on removal
25 of production demand, transmission, and sub-transmission-
26 related costs from firm LGS rates;

27 ...

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- e. a revenue-neutral re-design of the Large Power Service rate that allows recovery of lost revenue from known and expected conversions to 69 kV service; and
- f. the equalization of Residential rates between Mohave and Santa Cruz counties.
- g. the equalization of Small Commercial rates between Mohave and Santa Cruz counties.

12. Staff will accept the results of the cost of service study for rate design purposes, and the other rate principles above, if the study adheres to the above criteria. The load data should conform to the criteria described in the Appendix A attached to the Settlement Terms.

13. Staff believes the Settlement Terms are in the public interest and should be approved because the Company has agreed to unbundle its current tariffs and file a revenue neutral rate case with updated load data before proposing increases and decreases to certain rates and charges. The Company revised its tariffs in accordance with the Settlement Terms on December 8, 1998.

14. On December 22, 1998, Residential Utility Consumer Office filed a letter stating that it would not object to the proposed tariffs based upon the functionalization of the Valencia generating facilities to either distribution or transmission service.

15. In light of the Commission's action in Decision No. 61311, staying the Electric Competition Rules, A.A.C. R-14-2-1601 et seq., Staff recommends that the tariff filing as revised be denied.

CONCLUSIONS OF LAW

1. CUC is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over CUC and over the subject matter of the application.

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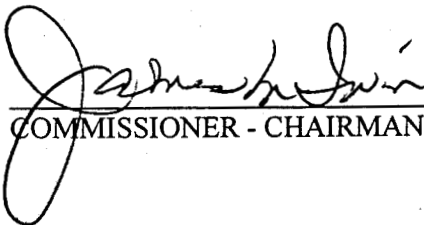
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3. The Commission, having reviewed the Summary of Settlement Terms developed by Staff and CUC, the revised tariff pages in accordance with the Settlement Terms and Staff's Memorandum dated December 22, 1998, concludes that the tariff filing as revised be denied.

ORDER

THEREFORE, IT IS ORDERED that the Settlement Terms and revised tariffs be denied.
IT IS FURTHER ORDERED that this Decision shall become effective immediately.

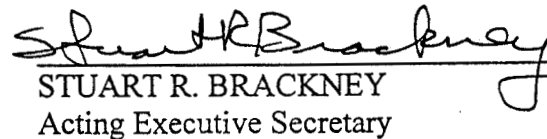
BY ORDER OF THE ARIZONA CORPORATION COMMISSION


COMMISSIONER - CHAIRMAN

COMMISSIONER


COMMISSIONER

IN WITNESS WHEREOF, I, STUART R. BRACKNEY, Acting Executive Secretary of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 11 day of JAN. 1999.


STUART R. BRACKNEY
Acting Executive Secretary

DISSENT 

RTW:JVW:djg/PAB

Appendix A

Guidelines For Updating Load Research

Since it is not possible for Citizens to update its load research program in a timely fashion, the Company needs to correct the deficiencies in its filed allocated cost of service study using surrogate load research data from other sources. The Company should use the alternate load research data in order to check the accuracy of its own data, and supplement it where appropriate. At a minimum, the Company should incorporate the following in its unbundled rate design:

1. The Company should prepare a statement on the applicability of the alternate load research data by comparing the load characteristics of the target classes, for instance, similar average customer size, similar climate (for classes with weather sensitive end uses such as air conditioning), and similar time of the system peak. The Company should also describe the load research accuracy and methods employed by the utility(ies) which developed the load research data.
2. The Company should begin with its own billing data (kWh, kW or kVA where applicable) and adjust the data if necessary to the time frame of the alternate data. The Company should adjust its billing data as appropriate, given its knowledge of the timing of its meter reading and billing. The Company should also explain how it estimated the consumption of non-metered classes, e.g. hours of darkness for street lighting classes.
3. The Company should apply the coincidence factors of the alternate load research data, or a ratio analysis, to develop estimates of class peak (NCP), system peak (CP) and maximum customer demands (MCD) at the customer level. The Company should adjust the coincidence factors or ratios as it deems appropriate based on billing data and on the older load research data, where class definitions have not changed.
4. The Company should adjust the CP, NCP and MCD for each class to the generator level by applying loss factors. The Company should state the source of the loss factors it utilizes. Next, the sum of the CP's should be compared to the actual system monthly peaks, and adjusted if necessary on a reasonable basis (excluding deterministic loads such as hourly metered classes and street lighting classes.)
5. The Company should then compare the resulting class allocations to those in its initial filing. The Company should state for which classes it will use the allocators based on the surrogate data.